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Introduction

U.S. boards of directors have come under repeated fire for what some observers call a lackluster record in corporate governance. The body of evidence collected in the last decade, however, suggests otherwise. U.S. corporations have emerged from a decade of drastic economic change and widespread corporate restructuring. And their boards matured during those years, gaining more power and greater independence in the face of these challenges.

Clearly, the balance of power between the CEO and the board has shifted. The CEO no longer reigns as an absolute monarch, expecting corporate policy to be rubber-stamped. Rather, directors have become stronger and more independent partners in corporate leadership.

And it appears that many CEOs are welcoming more independent boards. Most of the companies polled in our study this year—93 percent—say a strong board gives them a strategic advantage. The majority of these CEOs, who also serve as chairmen in 79 percent of the corporations surveyed, believe boards should address fundamental questions ranging from corporate survival to strategic planning.

In addition, boards have become more directly involved with management succession than at any time in the past. Planning for a new generation of senior managers poses one of the most difficult problems for CEOs, pointing as it does to their own mortality. Contrary to popular perception, however, nearly three-quarters of companies surveyed this year report that they have a management succession plan in place. And nearly two-thirds of those companies report that their plan has been developed with the board of directors. In our opinion, this represents a major shift from a decade ago when succession planning was in its infancy and the process typically ignored.

A Board Agenda for the 1990s

The results of the Seventeenth Annual Board of Directors Study completed by Korn/Ferry spotlight further trends in the evolution of the board. The study polled CEOs at the country's largest corporations and financial institutions. This year's findings contribute to a body of data that spans nearly two decades, making it possible to track changes in corporate governance. An analysis of these findings reveals 10 emerging trends that will help shape board agendas for the 1990s.

Trend One. Corporate survival has become a primary goal of the board. In a question asked for the first time this year, we sought CEOs' opinions about their board's responsibilities in "ensuring long-term corporate survival." Corporate survival is considered important or extremely important by 86 percent of the responding CEOs. Unquestionably, the response reflects the critical nature of issues confronting U.S. companies at this juncture in history, with competition from Asia and Europe accelerating at an extraordinary pace. Boards increasingly will be called upon to assist companies in developing strategies to compete in a global economy.

Trend Two. Future boards will assume a more international perspective by adding directors who are non-U.S. nationals and forming international advisory boards. More Europeans and Asians will sit on U.S. boards. Twenty-one percent of the $5 billion-and-over firms—companies that tend to set the pace for board innovation—reported they have established international advisory boards. This no doubt reflects the demands of a changing world economy with international markets eclipsing domestic.

Two-thirds of the CEOs polled this year believe a director with international experience would be an asset to the board. Of these executives, 46 percent list Europe as a geographic area in which they would benefit from board expertise—followed by Canada at 14 percent. Few respondents identified Japan (eight percent) or other countries of the Pacific Rim (six percent) for board expertise. This may reflect myopic views of the impact of these markets on the United States, as well as the fact that many Americans tend to be more comfortable with other Western cultures.

Trend Three. Director compensation will continue to climb. The Korn/Ferry Board Study has tracked consistent compensation increases during the past decade as companies demonstrated they are willing to pay for quality directors. During the past five years, compensation has risen 27 percent—from $19,544 to $24,729—acknowledging the increasing responsibilities and commitment required of board members. Forty percent of the companies surveyed report they raised compensation in the past year by about eight percent.

Trend Four. Directors increasingly will be expected to own a stake in the companies they serve. Ninety-one percent of the CEOs this year said directors should own company stock, up from 81 percent a year ago. And 24 percent of the companies report they have set up stock option plans—up from 16 percent last year and just three percent five years ago. Nearly three-quarters of the respondents—and 87 percent of the $5 billion-and-over companies—report that all of their directors own stock.

Trend Five. The number of insiders on boards will drop even further, from three to two in the next decade. Increasingly, the CEO and COO will be the only insiders on the board. Ten years ago we predicted that outside directors would become a major force in corporate governance. Clearly, that is the case today. CEOs this year report their boards are composed of an average of 10 outside directors and three directors from inside the company, compared with five insiders and eight outside directors in 1975.

Trend Six. Boards will increasingly protect the interests of nonshareholder constituents such as employees, communities and environmental groups. A third of the states already have enacted laws that support directors in considering such stakeholders. While CEOs still overwhelmingly consider shareholders their primary constituency, outside directors have become much more sensitive to the needs of other groups, and their majority voice on the boards will carry more weight.

Trend Seven. Directors will not be automatically reelected. One-third of CEOs believe that outside directors should be formally evaluated, and 94 percent favor asking for the resignation of directors who do not measure up to their standards. Over the next decade, as major shareholders take a more active role in corporate governance, proxy contests will also result in higher director turnover, especially at larger corporations. And more boards will seat directors from large institutional investors, who are already seeking representation to safeguard their substantial investments.

Trend Eight. Directors will serve on fewer boards. In the past, directors have been faulted for sitting on too many boards to render significant service to a company. The CEOs surveyed, however, appear to take board memberships seriously. There was almost unanimous agreement that CEOs should limit their directorships to three boards. More than half the CEOs have turned down an invitation to sit on a board during the past year. Board members apparently recognize that they cannot exercise greater leadership if sitting on too many boards.

Trend Nine. Future boards will be smaller, more flexible and better managed, with directors having greater interaction as they work together as a team. Corporate directors will work more closely together in the future as they assert leadership in corporate affairs. Nearly three-quarters of the companies surveyed pay fees for meetings held via teleconferencing and video-conferencing calls—allowing board members to meet more frequently and to have greater contact with one another. The average number of meetings rose to nine this year, indicating a concern with keeping a closer and more active involvement in the governance of companies on whose boards directors serve. The time devoted to board business annually (94 hours) is down 20 hours from five years ago. We believe that today's directors

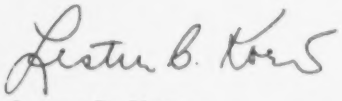
are able to do a better job in less time through more efficient use of committees as well as more frequent contact with the CEO. A majority of CEOs report they consult with directors either "frequently" or "regularly" between meetings, most often about acquisitions and financial issues.

Finding qualified directors—particularly with business leaders limiting the number of boards they sit on—will be more difficult in the future; this phenomenon will tend to encourage companies to maintain smaller and more manageable boards.

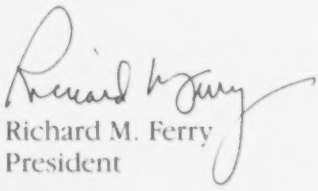
Trend Ten. An increasing number of directors will come from the ranks of retired CEOs. Directors continue to be drawn primarily from two sources: chief executive and chief operating officers of other companies (80 percent) and retired executives (64 percent). Given the pressures of these posts, retired executives will be an important source of qualified board members in the future, particularly as the U.S. population ages. The talent available in the pool of retired executives will rise dramatically in coming years.

These trends suggest that the role of corporate boards will continue to expand and mature in the years ahead. Given the potential for offering objective counsel and wide expertise, corporate directors can be an invaluable resource for U.S. companies during a time of unprecedented political and economic change in our world community.

Sincerely,



Lester B. Korn
Chairman



Richard M. Ferry
President

March 1990

On a question-by-question basis, the following are the key findings of the Korn/Ferry International Seventeenth Annual Board of Directors Study.

Size of Board (Table 1)

Corporate boards, on average, seat 13 directors, the same as reported last year, but a decrease in size from the average of 14 reported in 1985. Board size varies with type of business and company size. The largest boards are found among banks and other financial institutions, which now average 18 members, up from the 17 reported last year, although a decline from the 20 members reported five years ago. Smaller companies with revenues of under $400 million have an average of 10 board members, whereas $5 billion-and-over industrials report 14 members.

When asked to conjecture on the size of the board in five years, 13 percent of the CEOs said they believe the number will decrease, 25 percent felt it would increase, and the majority, 62 percent, believe the number of board members will remain the same.

Inside Directors vs. Outside Directors (Table 1)

Respondents continue to report an average of three inside directors and 10 outside directors. In 1985, while the number of outside directors was also reported at 10, inside members averaged four.

Is the Chairman also the CEO? Is the CEO also the COO? (Table 2)

Seventy-nine percent of this year's respondents report that their chairman is also the chief executive officer, down from 84 percent last year and 80 percent in 1985. This combination of responsibilities occurs most frequently in the largest companies, $5 billion and over (92 percent), and among banks and other financial institutions (87 percent). Seventy-seven percent of the chief executive officers surveyed see no advantage to separating the chairman and CEO function.

Thirty-eight percent of the respondents report that their chief executive officer is also their chief operating officer, the same as reported last year.

Board Composition (Table 3)

Directors are drawn primarily from two sources: chief executive and chief operating officers of other companies, at 80 percent and retired executives of other companies, at 64 percent.

Directors from these sources are even more predominant on the boards of billion dollar companies, 85 percent of which include at least one CEO/COO of another company, and 67 percent of which include at

least one retired executive from another company. For all boards, the prevalence of retired corporate officers and attorneys who provide legal services has increased since 1988.

Representation of women rose slightly, from 58 percent last year to 59 percent in 1989. This is well above the 45 percent reported by the board five years ago.

The number of boards seating an ethnic minority director dipped to 32 percent from the 33 percent reported in 1988, but is still higher than the 25 percent of five years ago (Table 3A). Both women and ethnic minority directors come primarily from the ranks of academia and CEOs/COOs of other companies (Table 3B).

As in 1986 and 1987, insurance companies report the highest number of women directors on their boards (72 percent), followed by the largest industrials, $5 billion and over (69 percent). As in the past, the boards of banks and other financial institutions seat the greatest number of ethnic minorities (48 percent).

Sixty-five percent of all respondents think a director with international experience would be an asset to the board. Europe was most often cited as the area in which expertise would be most valued. Other areas mentioned were Canada, the Soviet Union, Japan and the rest of the Pacific Rim (Table 3C).

Only six percent of all respondents but 21 percent of the $5 billion-and-over industrials currently have an international advisory board. Five percent are considering establishing one.

Eighty-two percent of participants are satisfied with the present composition of their board. Of the 18 percent who are not satisfied, 48 percent said they desired additional experience in marketing, 43 percent in finance and 33 percent in their specific industry (Table 3D).

Committees (Table 4)

The most prevalent standing committees in use remain audit (97 percent), compensation/benefits (91 percent), executive (74 percent) and nominating (57 percent) (Table 4A). Respondents also ranked these committees most important.

The use of executive and nominating committees is closely correlated to company size. For example, the executive committee is less prevalent in smaller industrials with revenues under $400 million—52 percent, compared with the 77 percent reported by the largest industrials, $5 billion and over. And while 74 percent of the $5 billion-and-over industrials report a nominating committee, only 50 percent of the smaller industrials do so.

Committee composition averaged between five and seven directors. The compensation/benefits committee assigned two inside members, up from zero both last year and five years ago. Compared with 1988 and 1985, the average number of outside directors increased by one for the audit and finance committees. The audit committee is composed entirely of outside directors (Table 4B).

In 1989, the number of committee meetings per year ranged from two to seven. Executive committees met most frequently, seven times, up from four in 1985 and five in 1988, followed by the finance committee with six meetings, the same as last year. The nominating committee held the fewest number of meetings, at two per year (Table 4C).

In 56 percent of the cases, the chairman of the board also acts as the chairman of a committee. Of the 56 percent, 82 percent act in that capacity for the executive committee.

Compensation (Table 5)

As they have been since our study began, directors are primarily paid on an annual plus per-meeting fee basis; 88 percent of this year's respondents use this method of compensation. Nine percent of the respondents compensate their directors with an annual fee only. At three percent, the per-meeting fee only continues to be the most infrequent mode of compensation (Table 5A).

Annual Plus Per-Meeting Fee (88 percent of the respondents)

Fees for outside directors compensated on an annual plus per-meeting fee basis rose an average of eight percent, from $22,875 last year to $24,729 this year. Compensation has risen 27 percent from the $19,544 average five years ago, and the percentage of those earning $25,000 and over has nearly doubled, from 24 percent in 1985 to 47 percent this year. Commensurately, the percentage of directors earning under $14,000 has decreased substantially, to six percent from 22 percent five years ago (Table 5B).

The $24,729 total average annual compensation includes an average annual fee of $17,824 and a per-meeting fee of $986, up from the $13,629 annual fee and $834 per-meeting fee reported five years ago.

As would be expected, the larger the company, the higher the compensation. Directors of billion dollar industrial and service corporations earned an average of $27,862, while directors of $5 billion-and-over companies earned $32,512.

The upper quartile average for all participants was $35,426, nine percent greater than the $32,445 reported last year (Table 5C). The average upper quartile for billion dollar companies was $37,935.

Annual Fee Only (Nine percent of the respondents)

Among the companies that pay their outside directors an annual fee only, average compensation rose to $24,900, up nine percent from last year and up 38 percent from the $17,982 reported five years ago.

Per-Meeting Fee Only (Three percent of the respondents)

The smallest category, respondents who compensate their directors for meetings only, reported an average per-meeting fee of $716.

Committee Compensation (Table 6)

Eighty-seven percent of all participants offer additional compensation to their outside directors for committee service, and 56 percent pay an extra stipend for chairing a committee. As expected, fees were higher for committee chairmen than for members (Table 6A). As in 1988, banks and other financial institutions paid the lowest per-meeting fee for committee service, and retailers the highest.

Fifty-nine percent of directors are also paid for serving on special ad-hoc committees.

Total Annual Compensation

Including committee fees, the average total compensation for outside directors was reported at $29,863. The larger the company, the higher the compensation. Directors of the smaller industrials, those with revenues under $400 million, earned an average total compensation of $23,946, a 30 percent increase over last year's average of $18,370. Conversely, directors of billion dollar corporations earned an average of $34,424, up from $32,771 last year. Directors of the $5 billion-and-over companies received an average of $41,200.

The upper quartile average for all responding directors was $45,200. The average for billion dollar-plus companies was $50,861, and for the $5 billion-and-over companies, $58,183 (Table 6B).

Additional Compensation Information (Table 7)

Forty percent of the corporations surveyed increased compensation for their outside directors during the past year, up slightly from 38 percent in 1988. This percentage is considerably higher than the 23 percent who predicted such a fee increase last year. Companies that raised fees did so by an average of $3,190 for the annual retainer and $251 in per-meeting fees. Last year, total compensation increased by an average of $3,659, and five years ago, by an average of $2,777. As in the past, $5 billion-and-over industrials led, with a $5,556 annual raise and a per-meeting fee increase of $375, while retailers posted the smallest increase, at $2,000 annually (Table 7A).

Ninety percent of this year's participants believe that outside directors are adequately compensated for board services, about the same as last year.

Up slightly from last year, 74 percent of all participants and 81 percent of billion dollar companies compensate their outside directors for teleconference calls. Of the 74 percent who received such payment, the average compensation was $809 per call for all companies, and $845 for the billion dollar firms.

In 1989, the highest paid outside directors earned an average $34,382 for all board services exclusive of any consulting arrangements. This represents a three percent increase over last year's average of $33,379 and 25 percent more than the $27,424 paid five years ago. The highest paid directors at the billion dollar firms earned $39,869; at $5 billion-and-over companies, $51,733. The upper quartile average for all directors is $55,168, up from $41,539 five years ago (Table 7B).

Benefits

Compensation plans for outside directors continue to include additional benefits, such as accident insurance (41 percent), travel expenses for spouse (28 percent) and life insurance (23 percent). The matching of educational gifts remains popular, and was offered at 51 percent of the companies, the same as last year. Travel expense reimbursement was provided by 90 percent of the respondents, down slightly from last year's 93 percent and 96 percent in 1985. The practice of providing directors' liability insurance rose to 96 percent, up from 93 percent five years ago.

The option of deferring board fees until after retirement is offered by a majority of the respondents, 67 percent. This figure has remained steady for the past five years (Table 7C). There is a direct correlation between company size and fee deferral. Only 46 percent of the industrials with revenues under $400 million have an income deferral plan, while 85 percent of the $5 billion-and-over companies offer one, up from 37 percent and 76 percent, respectively, in 1988. The practice of deferring board fees is least common among retailers.

Forty-one percent of all respondents provide a pension/retirement plan for board members, up from 39 percent last year (Table 7C). Fifty-four percent of the billion dollar corporations included retirement programs in their benefits packages, compared with 27 percent of companies with revenues under $400 million.

In 1989, 24 percent of all respondents provided stock options for their outside directors, up from 16 percent in 1988 and three percent five years ago. Fifty-one percent of the CEOs are in favor of providing this benefit for their outside directors, up from 43 percent last year. Of

those who favor granting these options, 86 percent believe they help to align directors' interests with those of stockholders.

Ninety-one percent of all respondents and 93 percent of billion dollar companies believe that all directors should own some company stock, up from 81 percent and 89 percent, respectively, last year. Five years ago, 75 percent of the respondents stated that all directors should also be stockholders. In 1989, the average minimum number of shares recommended was 896, a dip from the 1,064 suggested last year but up from 765 shares in 1987. Seventy-four percent of all the respondents and 87 percent of the $5 billion-and-over participants reported that all of their directors do own stock in the company.

Liability Insurance

Ninety-six percent of all respondents currently have directors' liability insurance, up from 90 percent in 1988. Of the companies whose insurance policies were up for renewal in 1989, only 19 percent said that directors' liability insurance premiums increased (Table 7D). This figure has been declining sharply since 1986, when a record 82 percent reported premium increases. Premiums that did increase rose by an average of only 41 percent, down from 124 percent last year and compared with 362 percent in 1985. The highest premium increase, 129 percent, was reported by banks and other financial institutions.

Eleven percent of all respondents have opted for self-insurance, down from 15 percent last year. Eighty-five percent of the boards have approved a measure to limit the liability of outside directors, up from 72 percent last year.

Board Practices and Policies (Table 8)

After 12 consecutive years of respondents averaging eight annual board meetings, this year's average rose to nine meetings (Table 8A).

Outside directors spent an average of 94 hours on board-related business (including time for meetings and preparation), down from 108 hours in 1988 and 114 hours five years ago. Board time commitment continues to decline from the high of 125 hours reported in 1983.

Once again, there is a correlation between company size and time spent on board matters. While directors of industrials with revenues under $400 million averaged only 80 hours per year, directors of the billion dollar companies devoted an average of 104 hours to board-related business (Table 8B).

Predictably, chairmen spend considerably more time on board duties than do directors. They devoted an average of 162 hours to board business in 1989, about the same as reported last year. Chairmen of the industrial companies with revenues under $400 million again reported a

low of 133 hours. The billion dollar-plus corporate chairmen spent an average of 164 hours, down slightly from 169 hours reported last year.

If compensated on an annual plus per-meeting fee basis, outside directors earned an average of $263 per hour this year, up sharply from $212 in 1988 and $173 five years ago. The highest hourly rate, $313, went to directors of insurance companies, who in the past received among the lowest hourly rates. This year, as in 1987, service companies paid the lowest, $234 per hour, although this is an increase from last year's hourly rate of $219. Hourly rates for all outside directors in 1989 continued to increase, as total compensation for the year rose while the average number of hours devoted to board activities once again declined.

With committee fees taken into account, the overall average hourly rate for outside directors was $318, up from $261 in 1988.

Forty two percent of the participating chief executive officers and 51 percent of the billion dollar CEOs occasionally confer with their directors outside of board meetings. Thirty-six percent of all board chairmen frequently confer with directors, while 22 percent do so on a regular basis. Topics include financial issues and acquisitions (discussed by 57 percent of the respondents), changes in senior management (52 percent) and operating issues (42 percent).

Locating Outside Directors (Table 9)

Twenty-five percent of this year's respondents reported the resignation of outside directors within the past year, compared with 32 percent five years ago. At 36 percent, retailers had the highest percentage of outside director resignations, followed closely by banks and other financial institutions at 35 percent and insurance firms at 34 percent. Asked the reason for resignation, 23 percent cited time demands, up from 16 percent in 1985. Sixteen percent of the directors who resigned this year did so because of retirement, a decrease from 33 percent last year and 55 percent five years ago. Sixty-five percent of all responding companies and 76 percent of the largest industrials have replaced or intend to replace all directors who retired or resigned in 1989, about the same as last year.

Forty-six percent of all respondents expect a board vacancy in 1990, compared with 49 percent who expected one in 1989.

To fill board vacancies, the respondents continue to rely predominantly on the traditional methods: recommendations of the chairman (74 percent) and other board members (70 percent). Use of the nominating committee remains strong; 55 percent reported its use this year, compared with 51 percent last year. This percentage has been fluctuating, as five years ago 64 percent of the respondents employed the nominating committee.

Dependence on recommendations of other corporate officers, at 31 percent, continues to decline. Use of executive search firms to locate directors remains strong, with 16 percent of the total respondents now using such services, compared with 11 percent five years ago (Table 9A). Of the billion dollar industrials, 18 percent used executive search to locate new directors, up from 15 percent in 1985.

Twenty-five percent of the responding companies reported that prospective board directors declined invitations to serve on their boards in the past year, up from 23 percent in 1988 and 20 percent in 1985. Of the total respondents, 62 percent experienced one refusal, 32 percent had two, and six percent reported three or more. At 29 percent, billion dollar corporations and insurance firms most frequently experienced refusals.

As with resignations, time commitment is the predominant reason given for declining an invitation to serve on a corporate board (67 percent), although less of a factor than last year, when it was the primary cause for 78 percent. Serving on too many boards (37 percent) and a conflict of interest (25 percent) were also common reasons (Table 9B).

In 1989, average tenure for directors was nine years, down from 11 years in 1988. Thirty-three percent of the respondents believe there should be a limit to a director's term of service.

The average age of the CEO dipped from 57 to 56. Outside directors average 54 years of age.

Board Functions

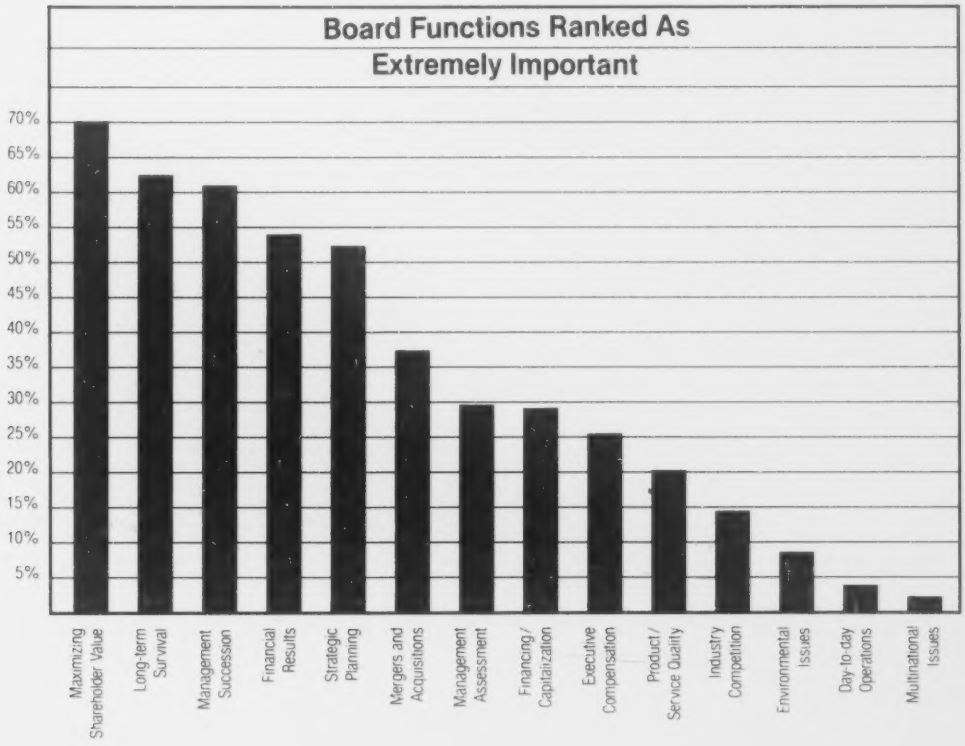
The chief executive officers of our responding companies ranked maximizing shareholder value as the most important board function. Seventy percent of all participants and 74 percent of the billion dollar firms cited this issue as extremely important.

Management succession and long-term corporate survival were the next most important issues, considered extremely important by 61 percent and 63 percent, respectively.

Larger companies are more concerned than smaller ones with strategic planning: 63 percent of the billion dollar industrials cited it as an extremely important board function, while 49 percent of the smallest industrials did so. Conversely, smaller companies are more concerned with financial results and industry competition. Whereas 67 percent of

the under $400 million industrials ranked financial results as extremely important, only 54 percent of the overall respondents and 46 percent of the largest industrials ($5 billion and over) did so.

Boards remain unconcerned with day-to-day operations. Sixty-four percent ranked this issue of little importance.



CEOs ranked long-term survival as second only to maximizing shareholder value.

Participating Companies (Table 10)

- Size of Participating Companies (Table 10A)
- Stock Exchange of Participating Companies (Table 10B)
- Type of Participating Companies (Table 10C)

TABLE 1—PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Type and Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Industrials			
Under $400 million	3	7	10
$400 million-$599 million	3	9	12
$600 million-$999 million	3	8	11
$1 billion-$2.999 billion	3	9	12
$3 billion-$4.999 billion	3	10	13
$5 billion and over	4	10	14
Banks and other financial institutions	4	14	18
Insurance companies	3	12	15
Retailers	3	9	12
Service companies	3	9	12
Average	3	10	13

TABLE 2—CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	% Chairman/CEO	% CEO/COO
Yes	78.6%	38.1%
No	21.4%	61.9%
TOTAL	100.0%	100.0%

TABLE 3—BOARD COMPOSITION

3A. Are one or more of the following individuals on the board?

	% 1985	% 1988	% 1989
CEO/COO of other companies	na	83.4%	79.5%
Retired executive (other companies)	68.2%	67.2%	64.1%
Woman	45.0%	57.7%	59.1%
Academician	54.5%	52.4%	55.4%
Retired corporate officer	46.4%	43.3%	47.0%
Senior executive (other companies)	81.8%*	40.8%	39.5%
Attorney (does not provide legal services for the company)	31.5%	35.3%	33.5%
Ethnic minority member	25.4%	33.2%	31.6%
Former government official	29.6%	29.6%	27.7%
"Professional" director	28.2%	25.7%	27.0%
Attorney (provides legal services for the company)	24.9%	19.4%	25.8%
Major shareholder (not officer of the company)	29.4%	26.0%	24.1%
Investment banker	24.2%	23.9%	22.9%
Commercial banker	30.8%	26.0%	22.7%
Non-U.S. citizen	14.0%	10.7%	12.0%
International executive (U.S. citizen)	8.7%	6.4%	6.7%

└ FIVE-YEAR TREND ┘

3B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	28.9%	34.4%
CEOs/COOs of other companies	20.6%	20.6%
Attorneys (do not provide legal services)	8.3%	15.3%
Senior executives (other companies)	16.5%	14.5%
"Professional" directors	13.3%	6.9%
Former government officials	11.9%	6.1%
Major shareholders (not officers of the company)	4.6%	1.5%
Retired executives	6.9%	1.5%

**Not comparable. 1985 percentage included CEOs/COOs of other companies. This became a separate category in 1986.*

3C. Would a director with international experience be a valuable asset to your board?

	%
Yes	64.8%
No	35.2%
TOTAL	100.0%

If yes, from which geographic areas?

	%
Europe	45.8%
Canada	13.7%
Soviet Union	8.2%
Japan	7.5%
Pacific Rim	5.8%
Eastern Europe	2.9%
Mideast	2.9%

3D. Are you satisfied with the present composition of your board?

	%
Yes	82.2%
No	17.8%
TOTAL	100.0%

If not, what kind of additional experience would you include?

	%
Marketing	47.8%
Finance	43.3%
Industry specific	32.8%
Technology	26.9%
Government	20.9%
Mergers/Acquisitions	19.4%
Human resources	6.0%
Public relations	6.0%
Crisis management/Turnaround	3.0%

TABLE 4--COMMITTEES

4A. Which of the following standing committees does the board have?

	% 1985	% 1988	% 1989
Audit	97.2%	97.7%	96.6%
Compensation/Benefits	82.2%	89.1%	91.1%
Executive	78.2%	77.0%	73.5%
Nominating	59.2%	60.4%	57.3%
Finance	38.2%	38.4%	33.5%
Public affairs	10.6%	10.5%	11.3%
Corporate ethics	5.9%	8.2%	7.0%
Science/Technology	2.4%	4.8%	3.1%

FIVE-YEAR TREND

4B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	5	5
Compensation/Benefits	2	4	6
Executive	2	4	6
Nominating	1	4	5
Finance	2	5	7
Public affairs	2	5	7
Corporate ethics	1	4	5
Science/Technology	1	4	5

4C. How many committee meetings were held during the past 12 months?

Committee	1985 Average Number of Meetings	1988 Average Number of Meetings	1989 Average Number of Meetings
Audit	3	4	4
Compensation/Benefits	4	4	4
Executive	4	5	7
Nominating	2	2	2
Finance	5	6	6
Public affairs	3	3	3
Corporate ethics	2	2	3
Science/Technology	2	3	4

FIVE-YEAR TREND

TABLE 5—COMPENSATION

5A. How are board members compensated?

Compensation	% 1985	% 1988	% 1989
Annual plus per-meeting fee (see Table 5B and 5C for amounts)	85.6%	88.3%	87.7%
Annual fee only	10.4%	10.5%	9.3%
Per-meeting fee only	1.9%	1.2%	3.0%
No response	2.1%	—	—
TOTAL	100.0%	100.0%	100.0%

FIVE-YEAR TREND

5B. Annual Plus Per-Meeting Fee

Total Average Annual Compensation	% 1985	% 1988	% 1989
Under $7,000	2.3%	0.8%	0.3%
$7,000–$10,999	8.7%	2.5%	2.6%
$11,000–$13,999	11.3%	5.5%	3.2%
$14,000–$16,999	13.2%	12.8%	8.1%
$17,000–$19,999	15.5%	14.2%	13.0%
$20,000–$24,999	25.5%	24.6%	26.3%
$25,000–$29,999	23.5%	39.6%	21.1%
$30,000 and over	na*	na*	25.4%
TOTAL	100.0%	100.0%	100.0%
Average Total Annual Compensation	$19,544	$22,875	$24,729

FIVE-YEAR TREND

**Included in $25,000 and over category*

5C. Annual Plus Per-Meeting Fee (continued)

Type and Size of Company	1985 Average Compensation	1989 Average Compensation	1989 Upper Quartile Average
Industrials			
Under $400 million	$14,013	$21,081	$31,447
$400 million-$599 million	$15,492	$22,643	$34,833
$600 million-$999 million	$19,557	$23,122	$33,083
$1 billion-$2.999 billion	$21,949	$26,021	$35,477
$3 billion-$4.999 billion	$24,534	$28,678	$35,856
$5 billion and over	$26,126	$32,512	$42,300
Banks and other financial institutions	$18,751	$22,476	$34,267
Insurance companies	$17,462	$24,423	$33,500
Retailers	$17,490	$24,139	$28,975
Service companies	$22,141	$23,628	$33,565
Average	$19,544	$24,729	$35,426

FIVE-YEAR TREND

TABLE 6—COMMITTEE COMPENSATION

6A. What is the average committee fee for outside directors?

	Member	Chairman
	Average Per-Meeting Fee	Average Retainer
Audit	$758	$3,757
Compensation/Benefits	$756	$3,427
Executive	$756	$5,091
Nominating	$769	$2,795
Finance	$746	$3,283

6B. What is the average total annual compensation, including committee fees, for outside directors?

Type and Size of Company	1988 Average	1989 Average	1989 Upper Quartile
Industrials			
Under $400 million	$18,370	$23,946	$37,165
$400 million-$599 million	$20,193	$26,490	$38,600
$600 million-$999 million	$23,670	$25,978	$35,707
$1 billion-$2.999 billion	$28,052	$30,048	$42,751
$3 billion-$4.999 billion	$34,750	$34,597	$44,356
$5 billion and over	$40,597	$41,200	$58,183
Banks and other financial institutions	$26,245	$27,331	$41,013
Insurance companies	$26,342	$31,300	$49,625
Retailers	$32,473	$30,042	$34,000
Service companies	$30,188	$29,816	$45,741
Average	$28,219	$29,863	$45,200

TABLE 7—ADDITIONAL COMPENSATION INFORMATION

7A. Has board compensation been raised within the last 12 months?

	% 1988	% 1989
Yes	38.4%	40.2%
No	61.6%	59.8%
TOTAL	100.0%	100.0%

If yes, by how much?

Type and Size of Company	Annual Retainer	Per-Meeting Fee
Industrials		
Under $400 million	$2,325	$100
$400 million-$599 million	$2,163	$242
$600 million-$999 million	$3,500	$400
$1 billion-$2.999 billion	$4,145	$204
$3 billion-$4.999 billion	$2,250	$167
$5 billion and over	$5,556	$375
Banks and other financial institutions	$3,600	$316
Insurance companies	$2,800	$170
Retailers	$2,000	na
Service companies	$2,209	$223
Average	$3,190	$251

7B. How much did the highest paid director receive in 1989 for all board services exclusive of any consulting arrangement?

Type and Size of Company	1985 Average Compensation	1989 Average Compensation	1989 Upper Quartile Average
Industrials			
Under $400 million	$17,883	$25,943	$41,769
$400 million-$599 million	$18,745	$31,502	$45,833
$600 million-$999 million	$25,872	$28,732	$43,136
$1 billion-$2.999 billion	$27,680	$35,150	$53,242
$3 billion-$4.999 billion	$32,174	$38,326	$48,106
$5 billion and over	$42,468	$51,733	$83,783
Banks and other financial institutions	$26,135	$33,682	$51,468
Insurance companies	$27,878	$37,621	$66,043
Retailers	$25,092	$31,836	$35,650
Service companies	$27,176	$32,616	$52,918
Average	$27,424	$34,382	$55,168

FIVE-YEAR TREND

7C. What benefits are included in the compensation plan for outside directors?

	% 1985	% 1988	$ 1989
Directors' liability insurance	93.4%	90.2%	95.5%
Travel expense reimbursement	95.8%	92.5%	90.1%
Deferral of board fees until retirement	67.5%	67.4%	67.0%
Matching educational gifts program	50.3%	51.0%	51.3%
Accident insurance	48.6%	38.5%	41.2%
Pension/retirement income plan	25.8%	39.0%	40.7%
Travel expenses for spouse	27.2%	28.7%	28.2%
Stock options	3.1%	15.7%	23.9%
Life insurance	23.4%	21.0%	22.7%
Medical insurance	10.6%	12.1%	13.3%

7D. Have your directors' liability insurance premiums been increased?

	% 1988	% 1989
Yes	33.2%	18.9%
No	66.8%	81.1%
TOTAL	100.0%	100.0%

TABLE 8—BOARD PRACTICES AND POLICIES

8A. How many regular board meetings are held during the fiscal year?

Meetings Per Year	%
Under 5	20.0%
5-6	30.2%
7-9	23.2%
10-12	25.4%
13 and over	1.2%
TOTAL	100.0%
Average	9 meetings

8B. How many hours (estimated) do directors spend annually on board activities including meetings and preparation?

Number of Hours	% 1988	% 1989
Under 40	3.7%	14.0%
40–70	29.3%	25.3%
71–100	27.3%	26.1%
101–130	18.7%	15.7%
131–160	9.4%	9.5%
161–190	5.9%	4.7%
191 and over	5.7%	4.7%
TOTAL	100.0%	100.0%
Average	108 hours	94 hours

Type and Size of Company	Average Number of Hours	Upper Quartile Average
Industrials		
Under $400 million	80	129
$400 million-$599 million	96	177
$600 million-$999 million	92	171
$1 billion-$2.999 billion	94	193
$3 billion-$4.999 billion	109	160
$5 billion and over	109	164
Banks and other financial institutions	87	154
Insurance companies	78	129
Retailers	84	145
Service companies	101	190
Average	94	166

TABLE 9—LOCATING OUTSIDE DIRECTORS

9A. How are outside directors located for the board?

	% 1985	% 1988	% 1989
Recommendation of chairman	81.3%	81.1%	73.7%
Recommendation of board members	77.3%	76.1%	70.4%
Nominating committee	63.7%	50.8%	54.9%
Recommendation by other corporate officers	37.4%	33.0%	30.6%
Executive search	10.9%	15.9%	15.9%
Referral from executive acquaintances	11.4%	9.8%	10.6%
Referral from attorneys	1.6%	2.5%	0.7%

└ FIVE-YEAR TREND ┘

9B. Have any prospective directors declined an invitation to serve on the board during the past year?

	% 1985	% 1988	% 1989
Yes	20.4%	23.0%	24.9%
No	77.7%	77.0%	75.1%
No response	1.9%	—	—
TOTAL	100.0%	100.0%	100.0%

FIVE-YEAR TREND

If yes, what are the predominant reasons?

	% 1985	% 1988	% 1989
Time commitment	60.2%	78.1%	67.0%
On too many boards	28.8%	44.8%	37.1%
Conflict of interest	21.2%	18.8%	24.7%
Increasing legal liability	na	8.3%	5.2%

TABLE 10—PARTICIPATING COMPANIES

10A. Size of Participating Companies

	Number of Companies	%
Industrials		
Under $400 million	46	10.8%
$400 million-$599 million	30	7.0%
$600 million-$999 million	37	8.7%
$1 billion-$2.999 billion	58	13.6%
$3 billion-$4.999 billion	11	2.6%
$5 billion and over	43	10.1%
Banks and other financial institutions	58	13.6%
Insurance companies	42	9.9%
Retailers	14	3.3%
Service companies	87	20.4%
TOTAL	426	100.0%

10B. Stock Exchange of Participating Companies

	%
New York Stock Exchange	69.2%
American Stock Exchange	5.4%
Over-the-counter	13.9%
Other (private, mutual)	11.5%
TOTAL	100.0%

10C. Type of Participating Companies*

	%
Industrials	52.8%
Banks and other financial institutions	13.6%
Insurance companies	9.9%
Retailers	3.3%
Service companies	20.4%
TOTAL	100.0%

**This year 1,000 companies were asked to participate. There were 426 responses available for tabulation at our deadline. The companies asked to participate included the Fortune 500, the Fortune 100 major service companies, the Fortune 50 major banking institutions, 50 major insurance companies, 50 major diversified financial companies, 50 major retailers, 50 major transportation companies and 150 selected smaller companies.*

Additional copies of the Board of Directors Seventeenth Annual Study are available at the production cost of $25.00 per copy. Supplements for Banks and Other Financial Institutions, Insurance Companies and Billion Dollar Corporations are also available. Please write to Board Services Division, Korn/Ferry International, 237 Park Avenue, New York, New York 10017.

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Board of Directors Seventeenth Annual Study Billion Dollar Corporations 1990

KORN/FERRY INTERNATIONAL

Korn/Ferry International's
Board of Directors Seventeenth Annual Study

A Survey of Major U.S. Corporations With Revenues in Excess of $1 Billion

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KORN/FERRY INTERNATIONAL
SEVENTEENTH ANNUAL BOARD OF DIRECTORS STUDY
OF BILLION DOLLAR CORPORATIONS

Introduction

Of the 426 corporations which responded to Korn/Ferry International's Seventeenth Annual Board of Directors Study, 148 reported revenues in excess of $1 billion. Like their counterparts at smaller companies, the CEOs of these corporations are overwhelmingly satisfied with the performance of their directors, and feel that a strong board gives their companies a significant strategic advantage. Chief executives, whatever the size of their company, particularly value the board's contributions in the areas of maximizing shareholder value, strategic planning, long-term corporate survival and management succession.

As in the past, however, billion dollar corporations are also setting trends for their smaller counterparts, particularly in the areas of succession planning, director compensation and concern over international competition. The growing awareness of these issues shown by large corporations indicates that they will soon be significant concerns for smaller companies as well.

The most significant trends:

- **Billion dollar corporations are generally more sensitive to global business issues.**
  - Billion dollar CEOs are particularly optimistic about the creation of new markets as a result of the EEC Unification of 1992.
  - At the same time, these chief executives are more concerned than their counterparts at smaller companies about the competition that will be created by new global markets, and they are more likely to expect that their need for executives based outside the U.S. will increase as a result of 1992.
  - Billion dollar companies are particularly anxious to add directors with international experience to their boards and are more likely than smaller corporations to have international advisory boards.
- **Larger companies are particularly concerned with executive succession planning.**
  - While only 70 percent of all respondents have developed such plans, this percentage rises to 79 percent for billion dollar companies and to 88 percent for $5 billion-and-over corporations.

- More than three-quarters of billion dollar companies have already picked two or three executives from whom the next CEO will be chosen.

- When billion dollar CEOs rank board functions, management succession is second only to maximizing shareholder value. Five years ago, only 27 percent of CEOs ranked management succession among the top three issues. This shift suggests that today's CEOs know how essential choosing future managers is to the future of the company.

- **Billion dollar corporations offer their directors greater compensation and benefits.**

  - As in the past, billion dollar companies lead in the amount they pay their directors. This year, billion dollar firms reported total average annual director compensation, including committee fees, of $34,812, versus $29,863 for all responding companies. Five billion dollar-and-over firms paid their outside directors an average of $40,625.

  - The largest corporations are the most likely to offer their directors pension and retirement benefits and to allow directors to defer board fees until retirement.

  - Compared to smaller companies, a greater percentage of billion dollar corporations compensate directors for meetings held via teleconference or video-conference calls, and nearly all $5 billion-and-over firms do so.

  - Billion dollar companies also lead in offering matching educational gift programs, life insurance, and reimbursement of travel expenses both for directors and spouses.

- **Large corporations are at the forefront of greater representation of women directors.**

  - Sixty-one percent of the boards of billion dollar companies include at least one woman director. At the $5 billion-and-over level, 77 percent of responding companies have women directors.

These developments indicate the directions likely to be taken by all boards over the next decade. In an increasingly complex, competitive global marketplace, boards will need to pay close attention to international events and will need to recruit directors with multinational experience and outlooks. The greater experience and responsibility demanded of directors will command correspondingly greater compensation and benefits. With their combination of objectivity, business expertise and familiarity with the specific company, boards will play an ever greater role in designing executive succession plans. And boards, like other top management functions, will increasingly include women and minorities who have been traditionally underrepresented in corporate affairs.

A Board Agenda for the 1990s

While the four trends already discussed are particularly pronounced at billion dollar companies, Korn/Ferry's Seventeenth Annual Board of Directors Study also identifies eight other key developments in corporate governance. These shifts, which will shape board agendas in the 1990s, are evident at all the corporations we surveyed and particularly at billion dollar companies.

Trend One. Corporate survival has become a primary goal of the board. In a question asked for the first time this year, we sought CEOs' opinions about their board's responsibilities in "ensuring long-term corporate survival." Corporate survival is considered important or extremely important by 87 percent of billion dollar companies, reflecting the critical nature of the issues facing U.S. companies in an increasingly global economy.

Trend Two. Directors increasingly will be expected to own a stake in the companies they serve. Ninety-three percent of billion dollar CEOs, and 98 percent of respondents from $5 billion-and-over companies, said directors should own company stock. Chief executives overwhelmingly believe that stock options help to align directors' interests with those of other shareholders.

Trend Three. The number of insiders on boards will continue to drop. Increasingly, the CEO and COO will be the only insiders on the board. Ten years ago, we predicted that outside directors would become a major force in corporate governance. Clearly, that is the case today. Today's boards, at both large companies and their smaller counterparts, are composed of an average of 10 outside directors and three directors from inside the company, compared with five insiders and eight outside directors in 1975.

Trend Four. Boards will increasingly protect the interests of nonshareholder constituents such as employees, communities and environmental groups. A third of the states already have enacted laws that require directors to consider such stakeholders. While CEOs still overwhelmingly consider shareholders their primary constituency, outside directors have become much more sensitive to the needs of other groups.

Trend Five. Directors will not be automatically reelected. One-third of CEOs believe that outside directors should be formally evaluated, and 96 percent favor asking for the resignation of directors who do not measure up to their standards. Over the next decade, as major shareholders take a more active role in corporate governance, proxy contests will also result in higher director turnover, especially at larger corporations. And more boards will seat directors among large investors, who are already seeking representation to safeguard their substantial investments.

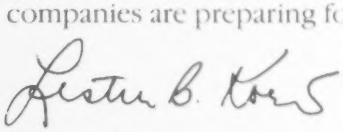
Trend Six. Directors will serve on fewer boards. In the past, directors have been faulted for sitting on too many boards to render significant service to a company. The CEOs surveyed, however, appear to take board memberships seriously. There was almost unanimous agreement that CEOs should limit their directorships to three boards. Sixty-two percent of billion dollar CEOs, and 70 percent of chief executives of $5 billion-and-over companies, have declined an invitation to sit on a board during the past year.

Trend Seven. Future boards will be smaller and more flexible with directors having greater interaction as they work together as a team. In the future, corporate directors will work more closely together to assert leadership in corporate affairs. The increased use of meetings held via teleconferencing and video-conferencing calls will give board members greater contact with one another. We believe that today's directors are able to do a better job in less time through more efficient use of committees, as well as more frequent contact with the CEO. A majority of CEOs report that they consult with directors either "frequently" or "regularly" between meetings, most often about acquisitions and financial issues.

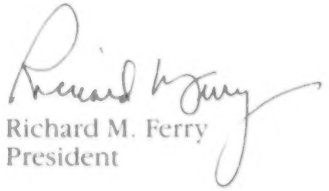
Finding qualified directors—particularly with business leaders limiting the number of boards they sit on—will be more difficult in the future. This phenomenon will encourage companies to maintain smaller and more manageable boards.

Trend Eight. An increasing number of directors will come from the ranks of retired CEOs. Directors of billion dollar companies continue to be drawn primarily from two sources: chief executive and chief operating officers of other companies (85 percent) and retired executives (67 percent). Given the pressures of these posts, retired executives will be an important source of qualified board members in the future, particularly as the U.S. population ages. The talent available in the pool of retired executives will rise dramatically in coming years.

In the 17 years that we have been conducting our annual study, the business world has undergone a number of shifts and transformations. Boards of directors have evolved accordingly, and billion dollar companies have been at the forefront of change. We hope that the following summary of findings will give billion dollar companies a sense of how they compare with their peers, while offering smaller corporations insights into how America's largest and most successful companies are preparing for the future.



Lester B. Korn
Chairman



Richard M. Ferry
President

September 1990

SUMMARY OF FINDINGS

On a question-by-question basis, the following findings relate directly to billion dollar industrial and service corporations (Table 1). When appropriate, comparisons have been made between this group and all participants in our study.*

Size of Board (Table 2)

Billion dollar company boards continue to seat an average of 13 directors, the same as last year but one less than the 14 reported five years ago. The average for the largest companies, $5 billion and over, is 14 members, the same as reported in 1988. All respondents report seating an average of 13 directors. With an average of 18 directors, banks and other financial institutions continue to maintain the largest boards.

When asked to conjecture on the size of the board in five years, 64 percent of the billion dollar firms said they believe the number of board members will remain the same, 27 percent felt it would increase and nine percent foresaw a decrease.

Inside Directors vs. Outside Directors (Table 2)

This year, billion dollar corporations have an average of three inside directors, the same as last year and one less than the four reported in 1985. They seat 10 outside directors, the same as last year. These averages are the same as those reported by all boards in the study.

Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)

This year, 81 percent of the billion dollar companies (and 94 percent of the $5 billion-and-over industrial and service firms) report that their chairman also serves as chief executive officer. Although down from 88 percent last year and 83 percent in 1985, the overall billion dollar figure is higher than the average of 79 percent reported by all participants.

Only 38 percent of the billion dollar respondents have a chief executive officer who also serves as chief operating officer, up from 34 percent five years ago. Likewise, 38 percent of the overall respondents report this dual relationship. Seventy-nine percent of the billion dollar-plus chief executive officers see no advantage to separating the chairman and CEO function.

Board Composition (Table 4)

Outside directors of billion dollar companies originate primarily from the following sources: chief executives and chief operating officers of other companies (reported by 85 percent, compared with 80 percent overall), retired executives of other companies (67 percent, compared

**This year, 426 corporations responded to our Annual Study. Of the 73 percent that are industrial and service corporations, 148 companies have revenues in excess of $1 billion. Banks and other financial institutions account for 14 percent, insurance companies for 10 percent and retailers for three percent.*

with 64 percent overall) and academicians (63 percent, compared with 55 percent overall). These categories of directors are even more common on the boards of the $5 billion-and-over companies, 87 percent of which seat a CEO/COO of another company, 81 percent of which include an academician and 73 percent of which report a retired executive.

Larger companies are more likely to seat former government officials on their boards: 38 percent of the billion dollar companies do so, compared with 28 percent of all respondents and only 16 percent of the smaller industrials. The figure rises to 50 percent for $5 billion-and-over companies. Twenty-seven percent of billion dollar boards now seat at least one "professional" director, the same as the overall respondents and down from 32 percent five years ago.

Women continue to be a growing source of outside directors for billion dollar corporations. This year, 61 percent seat at least one woman on their boards, up from 59 percent last year and the 51 percent reported in 1985. Among all companies surveyed, 59 percent seat a female director. In the largest industrial and service firms, the $5 billion-and-over companies, 77 percent have women directors, up from 71 percent last year and 63 percent five years ago.

Ethnic minority membership dipped slightly to 35 percent from 36 percent in 1988, but it was up from the 31 percent reported five years ago (Table 4A). Academicians are the most popular source of women directors, followed by former government officials and senior executives of other companies. Ethnic minority directors are most often drawn from the ranks of academicians and CEOs/COOs of other companies (Table 4B).

Seventy-three percent of the billion dollar respondents, and 84 percent of the $5 billion-plus industrial and service firms, feel a director with international experience would be an asset to the board. Similar to all respondents, billion dollar companies cited Europe as the area in which expertise would be most valued, followed by Canada (Table 4C).

Nine percent of all billion dollar industrial and service firms, and 21 percent of the $5 billion and over companies, currently have an international advisory board.

Eighty-five percent of the billion dollar companies are satisfied with the present composition of their board (Table 4D). Of those who are not satisfied, respondents indicated they would like their board members to have additional experience in finance and in their specific industry.

Committees (Table 5)

The most frequently reported committees among the billion dollar companies continue to be the audit (97 percent), compensation/ benefits (94 percent) and executive (78 percent) committees. Respondents also ranked these committees most important.

Sixty-two percent of the billion dollar companies use a nominating committee. This percentage continues to drop, down from 68 percent last year and 70 percent five years ago (Table 5A). However, the figure rises to 77 percent for the $5 billion-and-over corporations. Overall, 57 percent of the respondents reported use of a nominating committee.

Forty-one percent of billion dollar corporations report a finance committee, a decrease from 46 percent in 1988 and 51 percent in 1985. However, 52 percent of the $5 billion-plus industrial and service firms report using a finance committee.

Most committees at billion dollar companies have an average of five or six directors. Only the finance committee reports a high of seven members. The audit, executive, nominating and corporate ethics committees have all increased their number of outside directors from five years ago.

Only the audit committee is composed entirely of outside directors. The compensation/benefits committee, which formerly included no inside directors, now seats one (Table 5B).

The average number of committee meetings held at billion dollar companies ranged from a low of two meetings for the nominating committee to a high of seven for the executive committee, up from four meetings in 1985 (Table 5C). These figures were the same as those reported by all companies.

In 60 percent of the billion dollar companies, the chairman of the board also acts as the chairman of a committee. Eighty-eight percent of these board chairmen also chair the executive committee.

Compensation (Table 6)

Ninety-one percent of the billion dollar respondents compensate outside directors on an annual fee plus per-meeting fee basis. Six percent compensate directors with an annual fee only. Three percent pay only a per-meeting fee.

Annual Plus Per-Meeting Fee (91 percent of the respondents)

At the billion dollar companies that pay an annual fee plus a per-meeting fee, outside directors earned an average of $27,862, an increase of five percent over last year's average amount and 18 percent more than the $23,601 reported in 1985. Furthermore, this figure is 13 percent higher than the $24,729 averaged by all respondents. The $27,862 compensation comprises an average annual fee of $20,829 and an average per-meeting fee of $1,038.

Director fees at the $5 billion-and-over industrial and service companies grew at a slower pace. Here, compensation averages $31,554, compared with $31,028 last year.

The upper quartile compensation for billion dollar companies averaged

$37,935. This is seven percent more than the $35,426 upper quartile average reported for all respondents.

Annual Fee Only (Six percent of the respondents)

At billion dollar corporations that pay only an annual fee, outside directors earned an average of $37,167, up 20 percent from the average $31,056 reported last year and 70 percent above the average fee reported five years ago. Among all respondents, the annual fee averaged $24,900. For $5 billion-and-over industrial and service companies, average annual fees rose to $42,500, compared with the 1988 average of $39,313.

Committee Compensation

Eighty-nine percent of the billion dollar respondents, and 98 percent of the $5 billion-and-over corporations, pay their directors an additional fee for serving on committees. Additionally, 61 percent of all billion dollar companies, and 71 percent of the $5 billion-and-over firms, pay an extra stipend for chairing a committee. As expected, meeting fees for all committees at billion dollar corporations were higher than the reported overall averages. Fifty-two percent of the billion dollar firms also compensate their directors for serving on special ad hoc committees, compared with 59 percent of the overall respondents.

Total Annual Compensation (Table 7)

The average total compensation paid to outside directors of billion dollar companies, including committee fees, was reported at $34,812, up from $32,771 last year and substantially more than the average of $29,863 for all respondents. Directors of the $5 billion-and-over industrial and service corporations earned an average of $40,625, up only slightly from last year.

The upper quartile average for the billion dollar industrial and service firms was $50,861 (up from $47,079 last year). This figure rose to $54,924 for the $5 billion-and-over industrial and service companies.

Additional Compensation Information (Table 8)

The highest paid outside directors of billion dollar corporations earned an average total compensation of $39,869 for all board service activities, exclusive of any consulting arrangements. This represents a three percent increase over last year's average and a 20 percent increase over the average reported five years ago. Compensation averaged $63,835 for upper quartile respondents at all billion dollar companies and $77,097 for the $5 billion-and-over industrial and service firms (Table 8A).

Eighty-one percent of the billion dollar industrial and service firms, and 92 percent of the $5 billion-and-over companies, compensate their outside directors for meetings held via teleconference calls, up from 61 percent and 72 percent, respectively, last year. The average compensation for each was $845 and $907 per call, respectively.

During the past year, 42 percent of the billion dollar companies increased compensation for outside directors, the same percentage that did so in 1988. This percentage is considerably higher than the 20 percent that predicted such a fee increase last year. Billion dollar companies reported an average increase of $3,648 in the annual retainer, compared with $3,190 for all respondents. Directors received a per-meeting fee increase of $204, compared with $251 for all study respondents. Last year, total compensation for the billion dollar outside director rose by an average of $4,129; five years ago, the total average increase was $2,956. Ninety-one percent of the billion dollar companies, the same percentage as last year, expressed a conviction that, in general, their outside directors are adequately compensated.

Benefits

Benefits for outside directors continue to gain in popularity. Compensation plans at 74 percent of the billion dollar companies, and 87 percent of the $5 billion-and-over corporations, permit outside directors to defer fees until retirement, up from 72 percent and 82 percent, respectively, last year. Fifty-four percent of all billion dollar respondents now provide a pension/retirement income plan, well above the 37 percent who offered such plans five years ago. Twenty-two percent of all billion dollar corporations provide stock options for their outside directors, a considerable increase from the 10 percent who did so in 1987 when the question was first asked. However, 53 percent of chief executive officers are in favor of extending such options to their outside directors. Of those in favor of granting stock options, 87 percent believe they help to align directors' interests with those of stockholders.

Other benefits commonly offered are directors' liability insurance (98 percent), travel expense reimbursement (92 percent), matching educational gift programs (62 percent) and accident insurance (46 percent) (Table 8B).

Stock Ownership

Ninety-three percent of the participating billion dollar firms believe that all directors should own some company stock, up from 89 percent last year. The average minimum number of shares indicated was 605.

Eighty-seven percent of the billion dollar respondents report that their outside directors do, in fact, own stock in the companies they serve. And in 78 percent of the cases, all directors own stock.

Liability Insurance

Ninety-eight percent of the billion dollar industrial and service firms, and all of the $5 billion-plus companies, currently have directors' liability insurance. Of those with policies up for renewal in 1989, 18 percent reported an increase in directors' liability insurance premiums, a considerable decrease from the 30 percent who experienced increases last year and the 66 percent reporting them in 1985. Furthermore, the average increase was 116 percent, a significant drop from 144 percent in

1988 and 336 percent five years ago. For all responding companies, the average increase was 41 percent.

Eight percent of the billion dollar company boards (down from 12 percent last year) have opted for self-insurance. Eighty-nine percent of billion dollar boards have passed a measure to limit liability, up from 84 percent in 1988.

Board Practices and Policies (Table 9)

Billion dollar corporate boards meet an average of eight times per year, the same average number reported both last year and five years ago. Five billion dollar-and-over firms also averaged eight meetings, down from a high of 11 meetings last year. As was the case for all respondents, the chairman generally determined the agenda for board meetings (95 percent).

A director on a billion dollar company board spends an average of 104 hours per year on board-related business, including time for meeting attendance and preparation. This figure is only a slight decrease from last year's average of 108 hours. Five years ago, the average was 126 hours. Among all responding companies, directors spent an average of 94 hours on board activities. The upper quartile average for the billion dollar companies is 166 hours, down from 170 hours in 1988 (Table 9).

The chairmen of billion dollar corporations reported devoting an average of 164 hours to board duties, compared with 169 hours last year.

Directors of these larger industrial and service companies earn $268 per hour if compensated on an annual plus per-meeting fee basis, up from both last year's $246 and the $187 hourly rate reported five years ago.

With committee fees taken into account, the average hourly rate for outside directors of billion dollar companies is $335, up substantially from the $303 reported in 1988. For directors at the $5 billion-and-over firms, the average rose to $356 per hour.

Fifty-one percent of the billion dollar CEOs (and 55 percent of the $5 billion-plus CEOs) occasionally confer with their directors outside board meetings. Thirty-two percent frequently confer with directors between meetings, while 17 percent do so on a regular basis. As for all respondents, topics include acquisitions and financial issues (discussed by 56 percent of the billion dollar-plus CEOs), followed by changes in senior management (50 percent).

Locating Outside Directors (Table 10)

Eighteen percent of the billion dollar corporations reported that at least one outside director resigned from the board in 1989, up from 16 percent last year but a considerable decrease from the 30 percent reported in 1985. Twenty-five percent of all study respondents experienced a board resignation in 1989. The major reason was time demands (cited by 29 percent), but directors' liability coverage was also

a factor (20 percent). Sixty-five percent of the billion dollar CEOs, and 72 percent of the CEOs at $5 billion-plus firms, intend to replace all the directors who retired or resigned in 1989. In 1988, 72 percent of the responding billion dollar CEOs planned to fill open board seats.

Forty-two percent of the billion dollar companies, and 51 percent of the $5 billion-and-over firms, expect a board vacancy in the coming year, a dip from the 48 percent and the 58 percent, respectively, reported last year but an increase from the 33 percent for all billion dollar respondents five years ago.

When identifying and selecting new directors, boards of billion dollar corporations continue to rely primarily on the traditional means of recommendations by the chairman (70 percent) and by other board members (68 percent).

The nominating committee is used to identify new directors at 55 percent of billion dollar corporate boards, down from 59 percent last year but the same as reported for respondents overall. This figure rises to 69 percent for the $5 billion-and-over firms, up from 66 percent in 1988. Executive search continues to be popular; 18 percent of the billion dollar companies now use search firms to assist in the selection of directors, up from 15 percent five years ago. (Table 10).

Twenty-nine percent of the billion dollar respondents, and 33 percent of the $5 billion-and-over firms, reported that a prospective director declined an invitation to serve on the board in 1989, about the same percentage as last year but up from 24 percent five years ago. Sixty-nine percent reported one refusal, 24 percent reported two, and seven percent experienced three or more.

Time commitment, cited by 67 percent, was again the major reason given for declining such a seat. At 46 percent of the companies experiencing refusals, sitting on too many boards was the reason given.

The average tenure of billion dollar directors is eight years, down from the 11 years reported last year by billion dollar respondents and compared with nine years for all respondents this year. Twenty-six percent of the billion dollar respondents believe there should be a limit to a director's term of service.

The average age of the CEO of a billion dollar company continued to drop, from 57 in 1988 to 55 this year. The billion dollar boards' outside directors average 54 years of age, while directors at the $5 billion-plus firms average 56 years old.

Board Functions

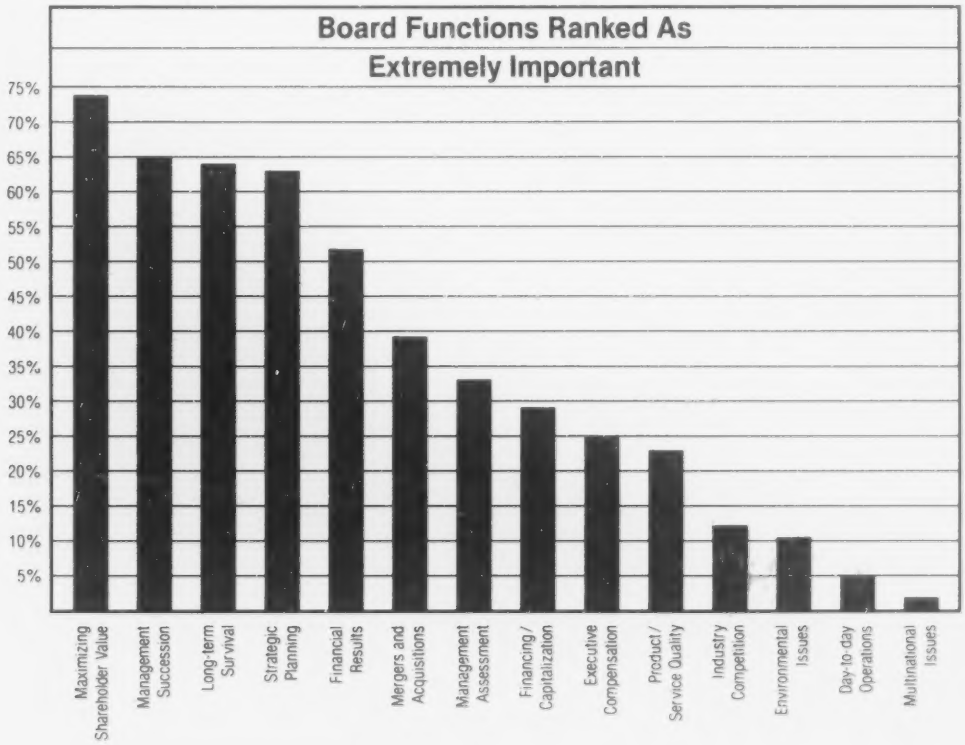
Like their counterparts at all the responding companies, billion dollar CEOs ranked maximizing shareholder value as the most important board function. Seventy-four percent of all billion dollar CEOs, and 78

percent of those at the $5 billion-and-over industrial and service firms, cited this issue as extremely important.

Management succession (65 percent), long-term corporate survival (64 percent) and strategic planning (63 percent) were the next most important issues for billion dollar companies; $5 billion-plus CEOs, however, placed the strategic planning function before both long-term corporate survival and the issue of management succession.

Larger companies are less concerned with financial results and industry competition than their smaller counterparts. Only 50 percent of the billion dollar firms ranked financial results as extremely important, whereas 66 percent of the smallest industrial and service firms did so.

Likewise, billion dollar boards are less involved with day-to-day operations than are boards of smaller firms. Sixty percent of all billion dollar company boards (and 68 percent of the $5 billion-and-over companies) ranked this function of little importance.



Like their counterparts at all companies, CEOs of billion dollar firms ranked management succession above long-term corporate survival and second only to maximizing shareholder value.

TABLE 1—PARTICIPATING COMPANIES

Of those industrial and service companies with sales volumes $1 billion or over, 148 participated in our Seventeenth Annual Study.

Size (Assets)	Number of Companies	%
$1 billion–$2.999 billion	73	49.3%
$3 billion–$4.999 billion	23	15.6%
$5 billion and over	52	35.1%
TOTAL	148	100.0%

Stock Exchange	Number of Companies	%
New York Stock Exchange	125	84.5%
American Stock Exchange	7	4.7%
Over-the-counter	5	3.4%
Other	11	7.4%
TOTAL	148	100.0%

TABLE 2—PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
$1 billion–$2.999 billion	3	9	12
$3 billion–$4.999 billion	4	9	13
$5 billion and over	4	10	14
Average	3	10	13

TABLE 3—CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	% Chairman/CEO	% CEO/COO
Yes	81.0%	37.6%
No	19.0%	62.4%
TOTAL	100.0%	100.0%

TABLE 4—BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	%1985 Companies Over $1 Billion	%1989 Companies Over $1 Billion	%1989 All Companies Surveyed
CEO/COO (other companies)	na	84.5%	79.5%
Retired executive (other companies)	75.3%	66.9%	64.1%
Woman	51.2%	60.8%	59.1%
Academician	67.4%	62.8%	55.4%
Retired corporate officer	51.6%	50.7%	47.0%
Senior executive (other companies)	86.0%*	35.8%	39.5%
Attorney (does not provide legal services for the company)	30.7%	29.1%	33.5%
Ethnic minority member	31.2%	34.6%	31.6%
Former government official	41.9%	37.8%	27.7%
"Professional" director	32.1%	27.0%	27.0%
Attorney (provides legal services for the company)	20.0%	18.9%	25.8%
Major shareholder (not officer of the company)	25.1%	25.0%	24.1%
Investment banker	26.5%	29.7%	22.9%
Commercial banker	34.4%	27.7%	22.7%
Non-U.S. citizen	20.5%	18.9%	12.0%
International executive (U.S. citizen)	10.2%	7.4%	6.7%

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4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	31.1%	31.4%
CEOs/COOs (other companies)	14.4%	23.5%
Attorneys (do not provide legal services)	6.7%	13.7%
Former government officials	21.1%	9.8%
Senior executives (other companies)	20.0%	9.8%
Professional directors	16.7%	—

4C. Would a director with international experience be a valuable asset to your board?

	%
Yes	73.1%
No	26.9%
TOTAL	100.0%

**Not comparable. 1985 percentage included CEOs/COOs of other companies. This became a separate category in 1986.*

If yes, from which geographic areas?

	%
Europe	55.5%
Canada	15.5%
Soviet Union	8.8%
Pacific Rim	7.4%
Japan	6.1%
Eastern Europe	5.4%

4D. Are you satisfied with the present composition of your board?

	%
Yes	85.2%
No	14.8%
TOTAL	100.0%

TABLE 5—COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	% 1985 Companies Over $1 Billion	% 1989 Companies Over $1 Billion	% 1989 All Companies Surveyed
Audit	97.2%	96.6%	96.6%
Compensation/Benefits	84.2%	93.9%	91.1%
Executive	79.5%	77.7%	73.5%
Nominating	70.2%	62.2%	57.3%
Finance	51.2%	41.3%	33.5%
Public affairs	14.9%	14.2%	11.3%
Corporate ethics	7.4%	6.1%	7.0%
Science/Technology	4.2%	2.7%	3.1%

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5B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	5	5
Compensation/Benefits	1	5	6
Executive	2	4	6
Nominating	1	5	6
Finance	2	5	7
Public affairs	1	5	6
Corporate ethics	1	5	6
Science/Technology	1	4	5

5C. How many committee meetings were held during the past 12 months?

Committee	1985 Average Number of Meetings	1988 Average Number of Meetings	1989 Average Number of Meetings
Audit	3	4	4
Compensation/Benefits	4	5	4
Executive	4	6	7
Nominating	2	2	2
Finance	5	4	5
Public affairs	3	3	3
Corporate ethics	2	2	3

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TABLE 6—COMPENSATION

Annual Plus Per-Meeting Fee (91 percent of the respondents)

Annual Fee Amount	%
Under $5,000	2.3%
$5,000–$6,999	2.3%
$7,000–$10,999	2.3%
$11,000–$13,999	6.1%
$14,000–$16,999	12.2%
$17,000–$19,999	13.0%
$20,000–$24,999	36.6%
$25,000 and over	25.2%
TOTAL	100.0%
Average Annual Fee	$20,829

PLUS

Amount Per Meeting	%
Under $600	6.2%
$600–$699	11.5%
$700–$799	18.5%
$800–$999	10.7%
$1,000–$1,199	35.5%
$1,200 and over	17.6%
TOTAL	100.0%
Average Per-Meeting Fee	$1,038

EQUALS

Total Annual Compensation	%
Under $14,000	2.4%
$14,000–$16,999	3.9%
$17,000–$19,999	9.3%
$20,000–$24,999	17.8%
$25,000–$29,999	27.9%
$30,000 and over	38.7%
TOTAL	100.0%
Average Total Annual Compensation	$27,862

Size of Company	1985 Average Compensation	1989 Average Compensation	1989 Upper Quartile Average
$1 billion–$2.999 billion	$20,890	$24,173	$34,053
$3 billion–$4.999 billion	$24,095	$30,317	$38,502
$5 billion and over	$25,926	$31,554	$40,827
Average	$23,601	$27,862	$37,935

FIVE-YEAR TREND

TABLE 7—COMMITTEE COMPENSATION

What is the average total annual compensation, including committee fees, for outside directors?

Size of Company	Average Compensation	Upper Quartile Average
$1 billion–$2.999 billion	$28,635	$41,290
$3 billion–$4.999 billion	$39,042	$54,678
$5 billion and over	$40,625	$54,924
Average	$34,812	$50,861

TABLE 8—ADDITIONAL COMPENSATION INFORMATION

8A. How much did the highest paid director receive in 1989 for all board services exclusive of any consulting arrangement?

Amount	%
Under $11,000	0.8%
$11,000–$16,999	3.1%
$17,000–$24,999	11.0%
$25,000–$29,999	15.0%
$30,000–$39,999	29.9%
$40,000–$49,999	20.5%
$50,000 and over	19.7%
TOTAL	100.0%
Average	$39,869

Highest Paid Directors

Size of Company	1985 Average Compensation	1989 Average Compensation	1989 Upper Quartile Average
$1 billion–$2.999 billion	$26,337	$32,174	$49,447
$3 billion–$4.999 billion	$32,346	$42,117	$61,178
$5 billion and over	$40,851	$49,312	$77,097
Average	$33,355	$39,869	$63,835

FIVE-YEAR TREND

8B. What benefits are included in the compensation plan for outside directors?

	% 1985	% 1988	% 1989
Directors' liability insurance	96.7%	95.2%	97.9%
Travel expense reimbursement	97.2%	93.6%	91.9%
Deferral of board fees until retirement	75.3%	72.3%	73.6%
Matching educational gifts program	69.3%	64.4%	62.2%
Pension/Retirement income plan	36.7%	52.1%	54.1%
Accident insurance	61.9%	53.7%	45.9%
Travel expenses for spouse	31.2%	33.0%	34.5%
Life insurance	27.4%	21.8%	26.4%
Stock options	n/a	18.6%	22.3%
Medical insurance	10.7%	13.3%	13.5%

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TABLE 9—BOARD PRACTICES AND POLICIES

How many hours (estimated) do directors spend annually on board matters, including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	13.8%
40 to 70	17.9%
71 to 100	26.8%
101 to 130	14.7%
131 to 160	15.4%
161 to 190	4.9%
191 and over	6.5%
TOTAL	100.0%
Average	104 hours

Size of Company	Number of Hours	Upper Quartile Average
$1 billion–$2.999 billion	96	192
$3 billion–$4.999 billion	106	148
$5 billion and over	114	186
Average	104	166

TABLE 10—LOCATING OUTSIDE DIRECTORS

How are outside directors located for the board?

	%1985	%1989
Recommended by chairman	78.1%	69.6%
Recommended by board members	76.2%	68.1%
Nominating committee	78.5%	55.4%
Recommended by other corporate officers	36.4%	26.4%
Executive search	15.4%	17.6%
Referred by executive acquaintances	8.9%	9.1%

FIVE-YEAR TREND

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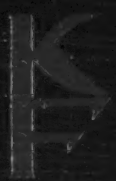

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Board of Directors

Seventeenth Annual Study

Banks and Other Financial Institutions

1970

KORNHAUSER INTERNATIONAL

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KORN/FERRY INTERNATIONAL
SEVENTEENTH ANNUAL BOARD OF DIRECTORS STUDY OF BANKS AND OTHER FINANCIAL INSTITUTIONS

Introduction

Of the 426 corporations that responded to Korn/Ferry International's Seventeenth Annual Board of Directors Study, 14 percent were banks and other financial institutions. The chief executives of these companies, like their counterparts in other industries, are overwhelmingly satisfied with the performance of their directors and believe that a strong board gives their companies a significant strategic advantage. Chief executives of financial institutions particularly value the board's contributions in the areas of maximizing shareholder value, long-term corporate survival and management succession.

As in the past, however, banks and other financial institutions offer their directors the lowest compensation of any responding group, and also lag behind in certain kinds of benefits. Although they are more likely than other companies to have identified their next CEO, an indication of valuable foresight, they are less concerned with global business issues than are their counterparts in other industries.

Here are the areas of most significant difference between banking and financial respondents and the other participants in our survey:

Compensation

—As in the past, banks and other financial respondents lag behind other companies in the area of compensation. This year, the average compensation in the financial sector was nine percent below the average for all respondents.

—Although financial companies were more likely than respondents from other industries to compensate directors for committee participation (94 percent versus 87 percent) and were also more likely to compensate directors for serving on ad hoc committees, they paid the lowest per-meeting fee for committee services of any responding group.

—Eighty-seven percent of financial respondents believe that their outside directors are adequately compensated. Although this percentage has increased from last year's 80 percent, it is still among the lowest percentages of all responding groups.

Benefits

—The percentage of financial institutions offering pension/retirement benefits has increased to 26 percent from 13 percent five years ago; however, they are still among the least likely of all groups to offer such plans. However, banks and other financial companies are among the study's leaders in allowing outside directors to defer fees until after retirement.

—Ninety percent of financial company CEOs believe all directors should own company stock, but only 39 percent—a low for the study—favor providing stock options to outside directors. In contrast, 51 percent of all responding CEOs favor this benefit, which has been growing steadily in popularity in recent years.

Board Size and Composition

—Banks and other financial institutions have the largest boards, averaging 18 directors (compared with this year's all-industry average of 13).

—Eighty-seven percent of banks and other financial companies report that their board chairmen also act as chief executive officers. Only industrial companies with revenues over $5 billion have a higher incidence of this dual relationship (94 percent).

—As in the past, the boards of banks and other financial companies lead in representation of ethnic minorities. Forty-eight percent of financial companies seat directors who are also ethnic minorities, significantly more than the 32 percent of all survey participants who do so. Banks and other financial institutions most frequently recruit these directors from the ranks of academia, followed by senior executives and CEOs and COOs of other companies.

—Only two percent of the boards of banks and other financial institutions include investment bankers, compared with 23 percent for all respondents.

Board Selection

For the first time, banks and other financial institutions relied predominantly on the nominating committee—rather than recommendations by board chairmen and other members—to fill vacant board seats. Sixty percent of financial institutions expect a board vacancy in 1990, compared with the 49 percent who expected one last year. More than half perceive a problem in finding and attracting qualified directors, and 20 percent believe that the problem has increased since last year. Under these conditions, banks and other financial companies may find that they have to improve director compensation and benefit packages to remain competitive with other companies.

International Business Issues

—While 35 percent of all responding CEOs expect the 1992 unification of the European Economic Community to open new markets for their companies, only 20 percent of financial company CEOs agree with this statement.

—Similarly, only 44 percent of respondents from banks and other financial institutions (versus 52 percent of the total sample) expect the EEC unification to increase competition, and only 15 percent expect it to increase their need for executives based outside the United States (versus 31 percent for all respondents).

—Only 49 percent of financial respondents, among the lowest of all responding groups, believe that a director with international experience would be an asset to the board.

Some of these disparities raise troubling questions about the competitive position of banks and other financial institutions in an increasingly complex and global business environment.

A Board Agenda for the 1990s

Despite many differences, there are also many ways in which banks and other financial boards are similar to their counterparts elsewhere in corporate America. During the 17 years that Korn/Ferry International has been conducting its board of directors study, a number of trends have become evident. The responses of this year's banking and financial respondents indicate that they share in these developments, which will shape the concerns and procedures of boards of directors in the coming decade. Some of the most prominent themes:

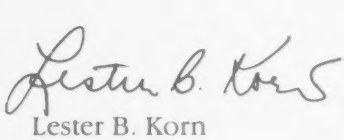
Trend One. Corporate survival has become a primary goal of the board. In a question asked for the first time this year, we sought CEOs' opinions about their board's responsibilities in "ensuring long-term corporate survival." Corporate survival is considered important or extremely important by 86 percent of financial companies, reflecting the critical nature of the issues facing U.S. companies.

Trend Two. Boards will increasingly protect the interests of nonshareholder constituents such as employees, communities and environmental groups. A third of the states already have enacted laws that require directors to consider such nonshareholders. While CEOs still overwhelmingly consider shareholders their primary constituency, outside directors have become much more sensitive to the needs of other groups.

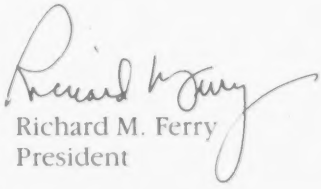
Trend Three. Directors will not be automatically reelected. One-third of all CEOs believe that outside directors should be formally evaluated, and 93 percent favor asking for the resignation of directors who do not measure up to their standards. At banks and other financial institutions, these figures rise to 38 percent and 98 percent, respectively. Over the next decade, as major shareholders take a more active role in corporate governance, proxy contests will also result in higher director turnover, especially at larger corporations. And more boards will seat directors among large investors, who are already seeking representation to safeguard their substantial investments.

Trend Four. An increasing number of directors will come from the ranks of retired CEOs. Directors of banks and other financial institutions continue to be drawn primarily from two sources: chief executive and chief operating officers of other companies (85 percent) and retired executives (69 percent). Given the pressures of these posts, retired executives will be a more important source of board members, especially since the talent available in the pool of retired executives will rise dramatically in coming years.

In the 17 years that we have been conducting our annual study, the business world has undergone a number of shifts and transformations. We hope that the following summary of findings will prove useful to banks and other financial institutions by offering a sense of how they compare with their peers.



Lester B. Korn
Chairman



Richard M. Ferry
President

September 1990

SUMMARY OF FINDINGS

On a question-by-question basis, the following findings relate directly to banks and other financial institutions (Table 1). Where appropriate, comparisons are made with all the participants in our study.*

Size of Board (Table 2)

Banks and other financial institutions have an average of 18 directors on their board, up from last year's 17 and higher than any group responding to the study. However, this figure is less than the 20 directors reported five years ago. All participating companies averaged 13 directors in 1989.

When asked to estimate the size of the board in five years, 21 percent of the financial institution CEOs said they believe the number will decrease, while 27 percent felt it would increase and 52 percent estimate the number to be the same.

Inside Directors vs. Outside Directors (Table 2)

Banks and other financial institutions have an average of four inside and 14 outside directors. The average for all companies is three inside and 10 outside members.

Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)

Along with the largest industrial firms, banks and other financial institutions once again report the highest percentage of chairmen who also act as chief executive officers. This dual relationship exists at 87 percent, up from 84 percent five years ago. On the other hand, financial respondents are among the least likely to have chief executive officers who are also chief operating officers. Twenty-one percent report this combination, down from 30 percent five years ago.

Eighty-six percent of banking and other financial services CEOs see no advantage to separating the chairman and CEO function. Overall, 77 percent of the responding CEOs saw no advantage.

Board Composition (Table 4)

Banks and other financial institutions draw heavily from the ranks of CEOs/COOs of other companies for their outside directors. Eighty-five

**This year, 426 corporations responded to our Annual Study. Of the 73 percent that are industrial and service corporations, 148 companies have revenues in excess of $1 billion. Banks and other financial institutions account for 14 percent, insurance companies for 10 percent and retailers for three percent.*

percent report seating at least one CEO or COO from another company. Retired executives of other companies serve on 69 percent of the banking boards, up from 61 percent in 1985.

Women now sit on 65 percent of all financial company boards, up from 61 percent five years ago. Although this figure is higher than the 59 percent reported this year by all boards, it is a dip from last year, when 73 percent of the banking boards included at least one woman director (Table 4A).

Female directors are drawn primarily from the ranks of CEOs/COOs of other companies (31 percent) and academicians (20 percent) (Table 4B).

Banks and other financial institutions include the highest percentage of directors who are also ethnic minorities. Forty-eight percent do so, about the same as last year and significantly higher than the 32 percent of all survey participants who seat minority directors. Five years ago, however, 52 percent of the banks and other financial institutions reported an ethnic minority board member (Table 4A).

Financial companies recruit most of their minority directors from academia (39 percent), followed by CEOs/COOs and senior executives of other companies (15 percent) (Table 4B).

Other groups frequently represented on the boards of banks and other financial institutions include academicians (57 percent), retired corporate officers (48 percent) and senior executives of other companies (44 percent). Financial boards, however, seat a low percentage of investment bankers. This year, only two percent include an investment banker down from 10 percent in 1985 and compared with 23 percent for all respondents this year (Table 4A).

Only 49 percent of financial respondents, among the lowest of all responding groups, think a director with international experience would be an asset to the board (Table 4C). In contrast, 65 percent of all respondents believe it would be helpful. Like all other respondents, banks and other financial institutions most often cited Europe as the area in which added expertise would be valuable, followed by Canada.

Seven percent of banks and other financial institutions currently have an international advisory board. Of those that do not, only two percent are considering establishing one.

Eighty-three percent of the participating financial institutions are satisfied with the present composition of their boards. Of the 17 percent who are not satisfied, 63 percent would like directors with additional financial expertise, while 50 percent desire mergers and acquisitions experience (Table 4D).

Committees (Table 5)

Among banks and other financial institutions, the most common standing committees continue to be the audit (98 percent), compensation/benefits (93 percent) and executive (87 percent) committees. Respondents also ranked these committees most important. The nominating committee continues to be especially popular among financial services institutions. Eighty-two percent report its use, up from 58 percent in 1985 and 60 percent last year. In comparison, 57 percent of all respondents have a nominating committee. Only 17 percent of the financial services boards, however, report having a finance committee (Table 5A).

As in the past, the executive and finance committees continue to be the largest. In 1989 they included an average of nine directors, up from seven in 1988. All committees range between five and nine directors. With the exception of the audit committee, which lost one outside director, and corporate ethics, which remained the same size, all committees have grown in the past five years. The audit committee is composed entirely of outside directors (Table 5B).

The executive committee met most frequently, averaging 12 meetings, up from five last year. The finance committee also met more often, from five meetings last year to seven in 1989 (Table 5C).

Sixty-four percent of the financial respondents report that the chairman of the board also acts as chairman of a committee, compared with 56 percent for all study participants. In 78 percent of the cases, board chairmen serve as the head of the executive committee.

Compensation (Table 6)

The annual plus per-meeting fee continues to be the most popular form of compensation for outside directors. This year 94 percent of banks and other financial institutions used this method, while six percent paid directors only an annual fee. None of this year's financial respondents gave directors only per-meeting fees.

Annual Plus Per-Meeting Fee (94 percent of the respondents)

For outside directors of banks and other financial institutions who were compensated on an annual plus per-meeting fee basis, the average annual compensation was $22,476. This figure, which excludes committee fees, is an increase of four percent over last year's average of $21,603. However, banks and other financial institutions still lag behind all other study respondents. This year, compensation was nine percent below the overall average.

The $22,476 total average compensation consists of an average annual fee of $14,412, up from $10,964 five years ago, and an average

per-meeting fee of $918, an increase from the $677 reported also in 1985. Directors at financial institutions with under $10 billion in assets reported an average compensation of $17,122, while those at the $10 billion-and-over companies averaged $24,676. This year, the average for financial companies in the upper quartile is $34,267, up from $30,948 last year.

Annual Fee Only (six percent of the respondents)

The average earnings of outside directors receiving an annual fee only declined for the second consecutive year, to $16,800. This figure is about the same reported by banks and other financial institutions in 1985. For all 1989 respondents, the average annual fee was $24,900.

Committee Compensation (Table 7)

Ninety-four percent of banks and other financial institutions provide additional compensation to their directors for committee participation, up from 90 percent last year and compared with 87 percent for all respondents. Seventy-five percent of the financial firms pay an extra stipend for chairing a committee, compared with 56 percent of all respondents. As in 1988, financial institutions paid the lowest per-meeting fees for committee service.

Seventy-seven percent of directors at banks and other financial institutions receive compensation for serving on special ad hoc committees, a high for the study.

Total Annual Compensation

Including committee fees, the average total compensation paid to outside directors of banks and other financial institutions was $27,331, up four percent from last year's $26,245 and compared with $29,863 for all respondents. Directors at banks and other financial institutions with less than $10 billion in assets earned an average of $20,391, while financial institutions with more than $10 billion in assets paid an average of $31,010.

The average for financial directors in the upper quartile was $41,013, up from $39,786 last year and compared with this year's overall average of $45,200.

Additional Compensation Information (Table 8)

The highest paid financial directors receive an average compensation of $33,682 for all board services exclusive of any consulting arrangement, up slightly from $32,140 last year.

The average upper quartile compensation for financial respondents is $51,468, compared with $55,168 for all respondents (Table 8A).

Eighty percent of banks and other financial institutions compensate their outside directors for teleconference calls, up from 71 percent last

year and 60 percent the previous year. For all participants, the figure was 74 percent. Financial services companies paid directors an average $754 per call.

Thirty-six percent of the financial respondents increased directors' compensation, up only slightly from 34 percent last year. Fees rose an average of $3,600 for the annual retainer and $316 for per-meeting fees, compared with last year's total compensation increase of $4,099.

Eighty-seven percent of financial respondents believe that their outside directors are adequately compensated. Although this is up from 80 percent last year, it is among the lowest percentages of all responding groups.

Benefits

Along with the largest industrial and service firms, banks and other financial institutions continue to lead in allowing outside directors to defer board fees until after retirement. Eighty-two percent offered this option, considerably more than the 67 percent of all respondents who did so. In both 1988 and 1985, 76 percent of the financial institutions allowed their outside directors to defer board fees.

Twenty-six percent of financial institutions have a program that provides retirement benefits, up substantially from the 13 percent that offered this option five years ago. However, along with retailers, banks and other financial institutions are among the least likely of all respondent groups to offer a pension/retirement income plan.

Fifteen percent of the banking respondents provided stock options for their outside directors, up from 11 percent in 1988. Thirty-nine percent of financial CEOs favor offering such options, compared with the average of 51 percent of all responding chief executive officers who approve of this benefit.

Other benefits commonly included are travel expense reimbursement (89 percent), matching educational gifts (41 percent) and accident insurance (28 percent). All financial institutions provided director liability insurance, up from last year's 93 percent (Table 8B).

Stock Ownership

Ninety percent of the participating financial institutions believe that all directors should own some company stock, up from 82 percent both last year and five years ago, and about the same as for all respondents. The average minimum number indicated was 608 shares.

At 85 percent of banks and other financial companies, all outside directors own company stock, compared with the overall average of 74 percent.

Liability Insurance

This year, banks and other financial institutions universally offered directors' liability insurance, up from 93 percent last year. Only 12 percent of all financial corporations reported that directors' liability insurance premiums increased for policies renewed in 1989. This percentage continues to decline, from 78 percent five years ago, 64 percent two years ago and 33 percent in 1988. However, the average increase of 129 percent, compared with the overall average of 41 percent, was higher than for any other responding group. Five years ago, the average premium for financial institutions increased by 271 percent.

Ninety-two percent of the financial boards have passed a measure to limit liability, up from the 89 percent last year.

Board Practices and Policies (Table 9)

The boards of banks and other financial institutions averaged nine regular meetings in 1989, the same as for all respondents. In 94 percent of the cases, the chairman determined the agenda for board meetings.

Outside directors of financial institutions devoted an average of 87 hours to board-related business this year, fewer than both the average of 101 reported last year and this year's overall average of 94 hours. The upper quartile average for banks and other financial institutions was 154 hours (Table 9A). Chairmen of financial institutions devoted an average of 147 hours to board-related business, down from 161 hours in 1988.

Based on reported compensation data, directors of financial institutions received an hourly rate of $258, up considerably from last year's $214 and the $176 reported five years ago. With committee fees taken into account, the average hourly rate for outside directors of banks and other financial institutions rose to $314, up from $260 in 1988.

Thirty-six percent of the participating financial company CEOs occasionally confer with their directors outside board meetings. Thirty-four percent frequently confer with directors between meetings, while 30 percent do so on a regular basis. Topics include acquisitions (70 percent), financial issues (54 percent) and changes in senior management (52 percent).

Thirty-five percent of banks and other financial companies reported a board resignation during the past year, the same as reported in 1988. This figure is greater than the 25 percent for all responding companies in 1989, but below the 44 percent reported by financial institutions five years ago.

Of those directors who resigned in 1989, 18 percent cited time demands as the major reason, followed by retirement (12 percent).

Sixty-eight percent of the financial institutions have replaced or intend to replace all directors who retired or resigned during the past year, up from 55 percent last year.

Sixty percent of financial institutions expect a board vacancy in 1990, up sharply from the 46 percent reported by all respondents and considerably more than the 49 percent of financial institutions who expected such a vacancy in 1988. For the first time, banks and other financial institutions relied predominantly on the nominating committee to fill vacant board seats. This year, 72 percent reported its use, up considerably from 51 percent last year and compared with 55 percent for respondents overall. Recommendations by board chairmen and other board members were cited by 70 percent of the financial company boards (Table 9B).

Seventeen percent of financial institutions, the lowest percentage of all responding groups, report that at least one prospective director declined an invitation to serve on their board in 1989. This is also the lowest percentage reported by banks and other financial institutions in the past five years. As in the past, time commitment was the primary reason cited for declining an invitation (67 percent), followed by a conflict of interest (44 percent) (Table 9C).

The average age of the financial CEO remains 56; the average age of outside directors is 55, down from 58 in 1988. In 1989, the average tenure of directors at financial institutions was 10 years, a dip from the 11 years reported last year.

Board Functions

Chief executive officers at banks and other financial institutions, like their counterparts at all responding companies, ranked maximizing shareholder value as the most important board function. Eighty percent of the financial firms rated this issue as extremely important, more than any other responding group. This board function was followed in importance by long-term corporate survival, cited by 59 percent. The issues of management succession and financial results were each mentioned by 57 percent of financial company CEOs.

CEOs of banks and other financial institutions are less concerned with quality of products and other services than with any other board issues. Only 13 percent of the banks consider this issue extremely important.

Although financial institution boards are also unconcerned with day-to-day operations (only two percent ranked this function as extremely important), only 48 percent rated the function of no importance, compared with the overall response of 64 percent.

TABLE 1—PARTICIPATING COMPANIES

Fifty-eight of America's major banks and financial institutions participated in our Seventeenth Annual Study.

Size (Assets)	Number of Financial Institutions	%
Under $10 billion	25	42.9%
$10 billion and over	33	57.1%
TOTAL	58	100.0%

Stock Exchange	Number of Financial Institutions	%
New York Stock Exchange	30	51.7%
Over-the-counter	26	44.8%
Other	2	3.5%
TOTAL	58	100.0%

TABLE 2—PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Financial Institution	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Under $10 billion	3	15	18
$10 billion and over	4	14	18
Average	4	14	18

TABLE 3—CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	% Chairman/CEO	% CEO/COO
Yes	86.8%	21.2%
No	13.2%	78.8%
TOTAL	100.0%	100.0%

TABLE 4—BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	1985 Financial Institutions	1989 Financial Institutions	1989 All Companies Surveyed
CEO/COO (other companies)	na	85.2%	79.5%
Retired executive (other companies)	61.4%	68.5%	64.1%
Woman	61.4%	64.9%	59.1%
Academician	62.2%	57.4%	55.4%
Retired corporate officer	41.0%	48.1%	47.0%
Senior executive (other companies)	84.1%*	44.4%	39.5%
Attorney (does not provide legal services for the company)	32.5%	42.6%	33.5%
Ethnic minority member	51.8%	48.2%	31.6%
Former government official	31.3%	22.2%	27.7%
"Professional" director	24.1%	22.2%	27.0%
Attorney (provides legal services for the company)	42.2%	38.9%	25.8%
Major shareholder (not officer of the company)	25.3%	16.7%	24.1%
Investment banker	9.6%	1.9%	22.9%
Commercial banker	16.9%	11.1%	22.7%
Non-U.S. citizen	15.7%	9.3%	12.0%
International executive (U.S. citizen)	13.3%	7.4%	6.7%

FIVE-YEAR TREND

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	20.0%	38.5%
Senior executives (other companies)	14.3%	15.4%
CEOs/COOs (other companies)	31.4%	15.4%
Attorneys (do not provide legal services)	11.4%	11.5%
Former government officials	5.7%	7.7%
Retired corporate officers	5.7%	3.8%
"Professional" directors	5.7%	3.8%

**Not comparable. 1985 percentage included CEOs/COOs of other companies. This became a separate category in 1986.*

4C. Would a director with international experience be a valuable asset to your board?

	%
Yes	49.0%
No	51.0%
TOTAL	100.0%

4D. Are you satisfied with the present composition of the board?

	%
Yes	83.0%
No	17.0%
TOTAL	100.0%

If not, what kind of additional experience would you include?

	%
Finance	62.5%
Mergers/Acquisitions	50.0%
Marketing	37.5%
Industry specific	37.5%
Public relations	12.5%
Technology	12.5%

TABLE 5—COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	Financial Institutions	All Companies Surveyed
Audit	98.1%	96.6%
Compensation/Benefits	92.6%	91.1%
Executive	87.0%	73.5%
Nominating	81.5%	57.3%
Finance	16.7%	33.5%
Public affairs	20.4%	11.3%
Corporate ethics	5.6%	7.0%

5B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	6	6
Compensation/Benefits	2	5	7
Executive	3	6	9
Nominating	2	5	7
Finance	2	7	9
Public affairs	2	5	7
Corporate ethics	1	4	5

5C. How many committee meetings were held during the past 12 months?

Committee	1985 Average Number of Meetings	1988 Average Number of Meetings	1989 Average Number of Meetings
Audit	4	5	5
Compensation/Benefits	4	4	4
Executive	7	5	12
Nominating	2	2	2
Finance	5	5	7
Public affairs	2	3	3
Corporate ethics	2	3	3

FIVE-YEAR TREND

TABLE 6—COMPENSATION

How are board members compensated?
Annual Plus Per-Meeting Fee (94 percent of respondents)

Annual Fee Amount	%
Under $5,000	2.0%
$5,000–$ 6,999	8.2%
$7,000–$10,999	14.4%
$11,000–$13,999	22.4%
$14,000–$16,999	20.4%
$17,000–$19,999	10.2%
$20,000–$24,999	16.3%
$25,000 and over	6.1%
TOTAL	100.0%
Average Annual Fee	$14,412

PLUS

Amount Per Meeting	%
Under $250	2.0%
$250–$499	2.0%
$500–$599	20.4%
$600–$799	28.7%
$800–$999	12.2%
$1,000–$1,299	24.5%
$1,300 and over	10.2%
TOTAL	100.0%
Average Per-Meeting Fee	$918

EQUALS

Total Annual Compensation	%
Under $11,000	8.2%
$11,000–$13,999	2.1%
$14,000–$16,999	16.3%
$17,000–$19,999	12.2%
$20,000–$24,999	30.6%
$25,000–$29,999	12.2%
$30,000 and over	18.4%
TOTAL	100.0%
Average Total Annual Compensation	$22,476

Annual Plus Per-Meeting Fee

Type and Size of Company	Average Compensation	Upper Quartile Average
Banks and other financial institutions	$22,476	$34,267
Insurance companies	$24,423	$33,500
Retailers	$24,139	$28,975
Service companies	$23,628	$33,565
Industrials		
Under $400 million	$21,081	$31,447
$400 million–$599 million	$22,643	$34,833
$600 million–$999 million	$23,122	$33,083
$1 billion–$2.999 billion	$26,021	$35,477
$3 billion–$4.999 billion	$28,678	$35,856
$5 billion and over	$32,512	$42,300
Average	$24,729	$35,426

TABLE 7—COMMITTEE COMPENSATION

What is the average total annual compensation, including committee fees, for outside directors?

Type and Size of Company	1988 Average	1989 Average	1989 Upper Quartile Average
Banks and other financial institutions	$26,245	$27,331	$41,013
Insurance companies	$26,342	$31,300	$49,625
Retailers	$32,473	$30,042	$34,000
Service companies	$30,188	$29,816	$45,741
Industrials			
Under $400 million	$18,370	$23,946	$37,165
$400 million–$599 million	$20,193	$26,490	$38,600
$600 million–$999 million	$23,670	$25,978	$35,707
$1 billion–$2.999 billion	$28,052	$30,048	$42,751
$3 billion–$4.999 billion	$34,750	$34,597	$44,356
$5 billion and over	$40,597	$41,200	$58,183
Average	$28,219	$29,863	$45,200

TABLE 8—ADDITIONAL COMPENSATION INFORMATION

8A. How much did the highest paid director receive in 1989 for all board services exclusive of any consulting arrangement?

Amount	%
Under $17,000	6.5%
$17,000–$24,999	13.1%
$25,000–$29,999	15.2%
$30,000–$39,999	41.3%
$40,000–$49,999	15.2%
$50,000 and over	8.7%
TOTAL	100.0%
Average	$33,682

Highest paid director

Type and Size of Company	Average Compensation	Upper Quartile Average
Banks and other financial institutions	$33,682	$51,468
Insurance companies	$37,621	$66,043
Retailers	$31,836	$35,650
Service companies	$32,616	$52,918
Industrials		
Under $400 million	$25,943	$41,769
$400 million–$599 million	$31,502	$45,833
$600 million–$999 million	$28,732	$43,136
$1 billion–$2.999 billion	$35,150	$53,242
$3 billion–$4.999 billion	$38,326	$48,106
$5 billion and over	$51,733	$83,783
Average	$34,382	$55,168

8B. What benefits are included in the compensation plan for outside directors?

	% 1988	% 1989
Directors' liability insurance	93.1%	100.0%
Travel expense reimbursement	91.7%	88.9%
Deferral of board fees until retirement	76.4%	81.5%
Matching educational gifts program	38.9%	40.7%
Accident insurance	26.4%	27.8%
Pension/Retirement income plan	26.4%	25.9%
Travel expenses for spouse	16.7%	14.8%
Life insurance	12.5%	14.8%
Stock options	11.1%	14.8%
Medical insurance	8.3%	11.1%

TABLE 9—BOARD PRACTICES AND POLICIES

9A. How many hours (estimated) do directors spend annually on board activities, meetings and preparation?

Number of Hours	%
Under 40	19.1%
40–70	19.1%
71–100	27.7%
101–130	21.3%
131–160	4.3%
161–190	2.1%
191 and over	6.4%
TOTAL	100.0%
Average	87 hours

Hours

Type and Size of Company	Number of Hours	Upper Quartile Average
Banks and other financial institutions	87	154
Insurance companies	78	129
Retailers	84	145
Service companies	101	190
Industrials		
Under $400 million	80	129
$400 million–$599 million	96	177
$600 million–$999 million	92	171
$1 billion–$2.999 billion	94	193
$3 billion–$4.999 billion	109	160
$5 billion and over	109	164
Average	94	166

9B. How are outside directors located for the board?

	% 1988	% 1989
Nominating committee	51.4%	72.2%
Recommendation by chairman	88.9%	70.4%
Recommendation by board members	75.0%	70.4%
Recommendation by other corporate officers	36.1%	31.5%
Referral from executive acquaintances	2.8%	9.3%

9C. Have any prospective directors declined an invitation to serve on the board during the past year?

	%
Yes	17.0%
No	83.0%
TOTAL	100.0%

If yes, what are the predominant reasons?

	%
Time commitment	66.7%
Conflict of interest	44.4%
On too many boards	22.2%

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